

Message Text

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SUBJECT: PRESS REPORT ON HUNGARIAN TRADE AGREEMENT
NEGOTIATIONS

1. UPON REFLECTION, WE HAVE DECIDED TO CABLE TEXT OF
REUTER'S ARTICLE ON TRADE AGREEMENT NEGOTIATIONS.
2. WE ARE PREPARING PRESS GUIDANCE, ANTICIPATING A POSSIBLE
REACTION TO ARTICLE, ON AN "IF ASKED" BASIS.
BEGIN UNCLASSIFIED
3. TEXT OF ARTICLE FOLLOWS:

THE UNITED STATES, BROADENING ITS NEW "COUNTRY-BY-COUNTRY,
TREATMENT OF SOVIET BLOC MEMBERS, IS HOLDING DETAILED TALKS
WITH HUNGARY ON A COMPREHENSIVE KIND OF TRADE PACKAGE STILL
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DENIED TO MOSCOW.

EXPERTS FROM THE U.S. DEPARTMENTS OF STATE AND COMMERCE HAVE
BEEN MEETING HERE WITH OFFICIALS FROM THE HUNGARIAN FOREIGN
MINISTRY TO ASSESS THE CHANCES OF GIVING BUDAPEST "MOST-
FAVORED-NATION" STATUS, WHICH ALLOWS FOREIGN COUNTRIES

EASIER ACCESS TO AMERICAN MARKETS.

SO FAR THE UNITED STATES HAS GRANTED MOST-FAVORED-NATION

STATUS TO ONLY THREE COMMUNIST STATES -- POLAND, ROMANIA
AND YUGOSLAVIA.

GRANTING THE SAME TRADING ADVANTAGE TO HUNGARY WOULD PUT
TO REST THE ONLY SERIOUS DISPUTE REMAINING BETWEEN BUDAPE
AND WASHINGTON, NOW THAT THE HUNGARIANS HAVE WON BACK THE
PRECIOUS CROWN OF ST. STEPHEN, THE 1,000-YEAR-OLD SYMBOL
OF THE COUNTRY'S NATIONHOOD, FROM THE UNITED STATES.

HOWEVER, NEGOTIATIONS WITH HUNGARY ON MOST-FAVORED-NATION
STATUS ARE COMPLICATED BY A 1974 U.S. TRADE ACT AMENDED
BY CONGRESS TO BAR THE STATUS AND FINANCIAL CREDITS TO
COUNTRIES WHICH RESTRICT EMIGRATION.

POLAND, A MEMBER OF THE SOVIET ALLIANCE, AND COMMUNIST
BUT NON-ALIGNED YUGOSLAVIA RECEIVED MOST-FAVORED-NATION
STATUS BEFORE THE TRADE ACT BECAME LAW, WHILE THE ROMANIA
GOT AROUND IT WITH A VAGUE PLEDGE TAKEN TO MEAN THAT
BUCHAREST WOULD NOT IMPEDE EMIGRATION.

IN FACT, HUNGARY'S EMIGRATION POLICY HAS PROVED TO BE
AMONG THE MOST LIBERAL IN COMMUNIST EASTERN EUROPE.

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BUT BUDAPEST, WHICH UNLIKE BUCHAREST CLOSELY FOLLOWS
MOSCOW IN FOREIGN AFFAIRS, HAS REFUSED TO MAKE THE
REQUIRED PLEDGES ON THE GROUNDS THAT THEY WOULD VIOLATE
THEIR OWN EMIGRATION LAWS.

U.S. DIPLOMATS SAY THE FIRST ROUND OF THE TALKS HERE ARE
BEING DEVOTED LARGELY TO THE PROBLEM OF HOW HUNGARY COULD
BE ACCOMMODATED WITHIN THE RESTRICTIONS OF THE TRADE BILL

"WE ARE TALKING TO SEE WHERE WE STAND," SAID ONE DIPLOMAT
"AGREEMENT ON A FORMULA GIVING HUNGARY MFN STATUS ON TERM
ACCEPTABLE TO BOTH SIDES WILL BE A MATTER OF MONTHS
-- NOT WEEKS."

IN FACT, NEITHER SIDE IS SHOWING MUCH ENTHUSIASM IN THE
DISCUSSIONS SO FAR, ACCORDING TO PARTICIPANTS.

WHILE ACKNOWLEDGING THAT THE DEAL WOULD STIMULATE TRADE
-- WHICH REGISTERED A MODEST 4.4 PER CENT RISE LAST YEAR
TO TOP 192 MILLION DOLLARS IN TOTAL TURNOVER -- THE
NEGOTIATORS REALIZE SALES CAN BE EXPANDED WITHOUT A NEW

AGREEMENT.

SO WHY BOTHER WITH MOST-FAVORED-NATION STATUS?

FOR THE HUNGARIANS, IT WOULD MEAN A TRADE ADVANTAGE OVER THEIR POWERFUL SOVIET NEIGHBORS. IN TURN, THE AMERICANS WOULD BE ABLE TO MARK THEIR SUPPORT FOR THE MORE LIBERAL POLICIES OF HUNGARIAN LEADER JANOS KADAR BY SINGLING OUT HIS COUNTRY FOR PREFERENTIAL TREATMENT.

SOME HUNGARIANS ARE NOT ENTIRELY PLEASED AT THIS PROSPECT. THEY POINT OUT THAT THEIR FIRST ALLEGIANCE IS TO MOSCOW AND A "FRIENDLY PAT ON THE HEAD FROM WASHINGTON," IN THE WORDS OF ONE HUNGARIAN FOREIGN MINISTRY OFFICIAL, "DOES NOT MAKE OUR LIFE EASIER."

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"SURE WE WANT MFN, BUT NOT AT ANY PRICE," HE ADDED. "THERE IS STILL A GROWING DEMAND FOR OUR GOODS IN THE UNITED STATES, EVEN IF THEY ARE EXPENSIVE BECAUSE OF HIGH AMERICAN TARIFFS."

WASHINGTON, MINDFUL OF ANGRY EMOTIONS STIRRED AMONG SOME HUNGARIAN-AMERICANS BY THE RETURN OF ST. STEPHEN'S CROWN, ALSO HAS RESERVATIONS ABOUT PRESSING AHEAD WITH THE NEGOTIATIONS ON MOST-FAVORED-NATION STATUS.

"CONGRESS IS JUST NOT READY YET TO ACT ON MFN," SAID ONE U.S. OFFICIAL, NOTING THAT THE U.S. SENATE WOULD HAVE TO APPROVE ANY TRADE TREATY WORKED OUT WITH HUNGARY.

HE RECALLED THAT SEVERAL MEMBERS OF CONGRESS WENT TO COURT IN AN EFFORT TO PREVENT PRESIDENT CARTER FROM HANDING BACK THE CROWN AND ITS ACCOMPANYING REGALIA.

THE CROWN, WHOSE ORIGINS GO BACK 1,000 YEARS TO THE FOUNDING OF THE CHRISTIAN HUNGARIAN STATE, WAS STORED IN U.S. TREASURY VAULTS AT FORT KNOX, KENTUCKY, AFTER BEING HANDED TO AMERICAN FORCES FOR SAFEKEEPING DURING THE CLOSING MONTHS OF WORLD WAR II.

THE CONGRESSMEN FAILED IN THEIR COURT ACTIONS AND SECRETARY OF STATE CYRUS VANCE FORMALLY RESTORED THE CROWN IN A DIGNIFIED CEREMONY ON JANUARY 6.

DURING HIS VISIT HERE, MR. VANCE SEIZED THE CHANCE TO SOUND OUT HUNGARIAN FOREIGN MINISTER FRIGYES PUJA ON THE POSSIBILITY OF GETTING NEGOTIATIONS MOVING. HE INSTRUCTED U.S. AMBASSADOR PHILIP M. KAISER TO PROCEED WITH EXPLORA-

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TORY CONTACTS.

BEFORE FLYING HOME, MR. VANCE UNDERLINED WASHINGTON'S PLEASURE WITH THE HUNGARIAN RECORD ON HUMAN RIGHTS, SAYING

AT A PRESS CONFERENCE THAT BUDAPEST'S POLICY ON REUNIFYING FAMILIES WAS "PROGRESSIVE."

THEN HE CAREFULLY SET OUT PRESIDENT CARTER'S THINKING ON EASTERN EUROPE, INDICATING THAT WASHINGTON NO LONGER WISHED TO TREAT THE AREA AS A SINGLE SOVIET-DOMINATED BLOC.

"I THINK THAT THE BEST WAY TO DEAL WITH THESE (EAST-WEST) PROBLEMS IS TO HAVE FACE-TO-FACE DISCUSSIONS WHERE WE CAN DISCUSS THE DIFFERENCES AND THE COMMON INTERESTS, AND WE SHALL PURSUE THESE ON THE BASIS OF DEALING ON A CASE-BY-CASE BASIS, COUNTRY-BY-COUNTRY, ON THE VARIOUS ISSUES AND COMMON CONCERNS WHICH WE HAVE," HE DECLARED.

HUNGARIAN-AMERICANS WHO OPPOSED THE RETURN OF THE HOLY CROWN TO COMMUNIST CONTROL ARE ALSO LOBBYING AGAINST BESTOWAL OF MOST-FAVORED-NATION STATUS ON THE PRESENT GOVERNMENT HERE.

U.S. OFFICIALS SAY THE CRITICS OVERLOOK THE FACT THAT MR. KADAR HAS SCRAPPED MANY OF THE OLD CENTRAL CONTROLS OVER THE ECONOMY, GRANTING MANAGERS AND ENTERPRISES AN INCREASING AMOUNT OF FLEXIBILITY IN RUNNING THEIR FACTORIE

ACCORDING TO HUNGARIAN PRESS REPORTS, FURTHER REFORMS ARE ON THE WAY WHICH COULD BENIFIT WESTERN FIRMS, ALREADY WEST GERMAN, FRENCH, ITALIAN AND SWEDISH COMPANIES ARE STEPPING UP THEIR ACTIVITIES IN BUDAPEST.

IN PARTICULAR, HUNGARIAN ECONOMIC EXPERTS SAY U.S. FIRMS
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COULD BENEFIT FROM EXPANDED TRADE IN ALUMINUM PROCESSIN PETROCHEMICALS, ELECTRONICS, VEHICLES -- HUNGARY IS LAUNCHING A BIG DRIVE TO SELL BUSES IN THE UNITED STATES AND CANADA -- AND PROCESSED FOOD.

AT THE MOMENT, HUNGARIAN EXPORTS ARE CHIEFLY CANNED MEAT,

SPICES, WINE, SHOES, ELECTRIC BULBS AND GLASSWARE, WHILE
IMPORTS ARE CONCENTRATED ON POTASH, FERTILIZERS, HIDES AND
OIL DRILLING EQUIPMENT. END UNCLASSIFIED. VANCE

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